

**B S R & Co. LLP**  
Chartered Accountants

# Corporate reporting insights

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## Background

In 2020, the Ministry of Corporate Affairs (MCA) amended Section 23 of the Companies Act, 2013 (2013 Act). The amendment enabled certain classes of public companies to issue specific class of securities for the purpose of listing on permitted stock exchanges in the prescribed foreign jurisdiction. In October 2023, MCA notified Section 23, thereby stipulating 30 October 2023 as the effective date for the applicability of this section.

## Overview of recent developments

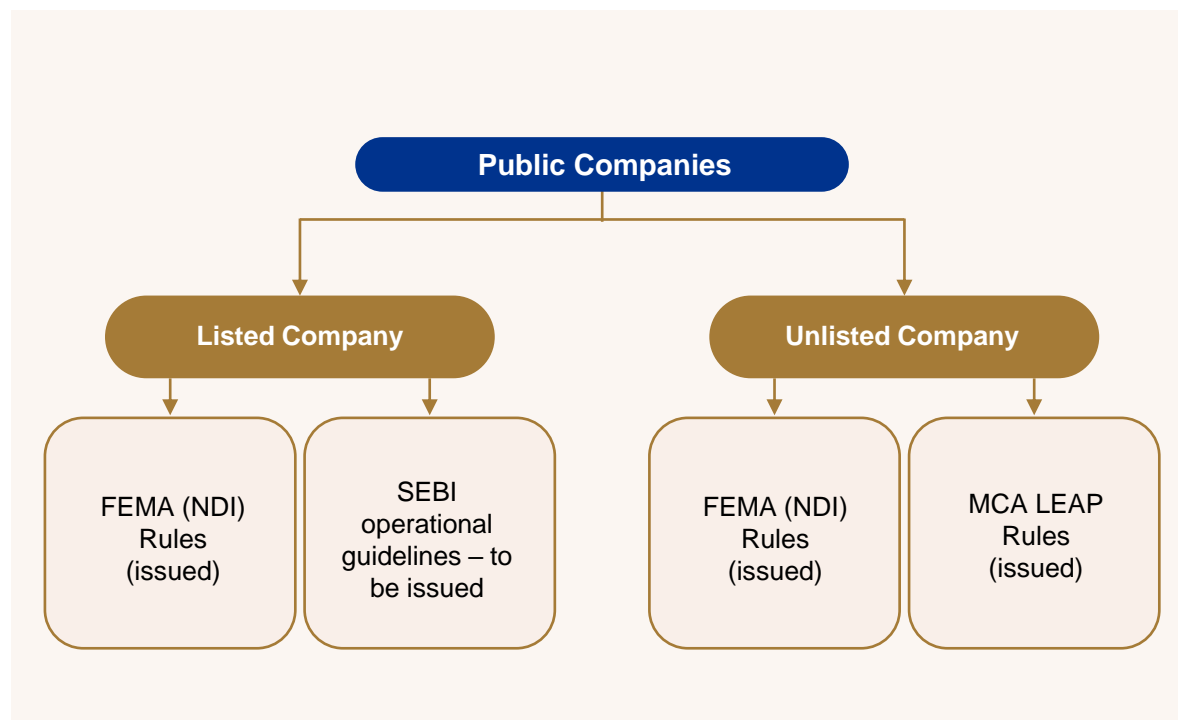
In this regard, recently the Central Government notified the following rules:

<p><b>MCA rules - Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 (LEAP Rules)</b></p>	<p>The LEAP Rules provide a framework related to listing in permissible foreign jurisdictions. The key points under the framework relate to:</p> <ul style="list-style-type: none"> <li>• Eligibility criteria for unlisted public companies</li> <li>• List of ineligible companies</li> <li>• Procedural aspects related to listing of securities on permitted stock exchanges in permissible foreign jurisdictions, and</li> <li>• Compliance with the Indian Accounting Standards (Ind AS) post listing by companies.</li> </ul> <p>SEBI is also in the process of issuing the operational guidelines for listed public Indian companies.</p>
<p><b>Ministry of Finance (MoF) notified the FEMA (Non-Debt Instruments) Amendment Rules, 2024 (NDI Rules)</b></p>	<p>The NDI rules aim to facilitate seamless overseas listing. These rules provide:</p> <ul style="list-style-type: none"> <li>• Issue and listing conditions and requirements,</li> <li>• Eligibility criteria for the public Indian company,</li> <li>• Obligations of the public Indian companies, etc.</li> </ul>
<p><b>Frequently Asked Questions (FAQs) on Direct Listing Scheme (28 FAQs)</b></p>	<p>The FAQ provides key points relevant to understand the framework.</p>





Figure 1 – Applicable regulatory framework (Section 23)



1. Listed public companies, so far as they are in accordance with regulations framed or directions issued in this regard by the Securities and Exchange Board or the Authority
2. India International Exchange, NSE International Exchange
3. International Financial Services Centre in India
4. As per Chapter V of the 2013 Act and rules made thereunder
5. Provided that this clause shall not apply if the company had made good the default and a period of two years had lapsed since the date of making good the default

## I. Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024

On 24 January 2024, the MCA issued the Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 (the rules). The aim is to provide Indian companies with access to both global and domestic markets for raising capital.

An overview of the Rules is provided below:

### Applicability

The rules would apply to listed<sup>1</sup> and unlisted public companies which issue their securities for the purposes of listing on permitted stock exchanges<sup>2</sup> in permissible jurisdiction<sup>3</sup>.

### Eligibility

As per the rules, the following companies are not eligible to for issuing equity shares for listing:

- Section 8 companies or a Nidhi company
- Companies limited by guarantee and also having share capital
- Companies having negative net worth
- Companies that have accepted deposits<sup>4</sup> from the public
- Companies that have defaulted<sup>5</sup> in payment of dues to any bank, public financial institution, non-convertible debenture holder, or any other secured creditor
- In case the company has made an application to wind-up or has any pending

proceeding against it for winding-up under the Insolvency and Bankruptcy Code, 2016

- Companies that have not filed their annual return under Section 92 or financial statements under Section 137 of the 2013 Act, within the specified period.

### Listing procedure

An unlisted public company which is eligible and has no partly paid-up shares can issue equity shares, including, offer for sale of equity shares by existing shareholders, for the purposes of listing on a stock exchange in a permissible jurisdiction. It is required to file the prospectus with the Registrar of Companies (ROC) in e-form LEAP-1 along with the fees within a period of seven days after the same has been finalised and filed in the permitted stock exchange.

It is mandatory for companies to comply with the requirements of the scheme and conditions specified by SEBI.

### Accounting standard compliance

Post listing, companies are required to comply with the Indian Accounting Standards in addition to any other applicable accounting standard, in preparation of their financial statements. These financial statements would be filed before the concerned securities regulator or with the relevant stock exchange.



## II. FEMA (Non-Debt Instruments) Amendment Rules, 2024

On 24 January 2024, the Ministry of Finance (MoF) amended the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 by issuing the Exchange Management (Non-debt Instruments) Amendment Rules, 2024 (NDI rules).

Some of the key amendments made to the rules are as follows:

- Definitions of 'International Exchange<sup>6</sup>', 'Listed Indian Company<sup>7</sup>' and 'Permissible Jurisdiction<sup>8</sup>' have been inserted in Section 2 of the rules.
- Chapter X has been introduced allowing a permissible holder to purchase or sell equity shares of a public Indian company which is listed or to be listed on an International Exchange under the Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme.
- Schedule XI has been inserted to provide specific provisions for Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme.

**Below are some of the key points of the notification:**

- a. Eligibility:** A public Indian company or the existing shareholders can offer equity shares on an international exchange subject to compliance with the conditions and other requirements laid down in the scheme.

The conditions and other requirements laid down in the scheme are as follows:

- A public Indian company shall be eligible to issue equity shares in permissible jurisdiction, if-
  - The public Indian company, any of its promoters, promoter group or directors or selling shareholders are not debarred from accessing the capital market by the appropriate regulator
  - None of the promoters or directors of the public Indian company is a promoter or director of any other Indian company which is debarred from

- accessing the capital market by the appropriate regulator
  - The public Indian company or any of its promoters or directors is not a wilful defaulter
  - The public Indian company is not under inspection or investigation under the provisions of the 2013 Act
  - None of its promoters or directors is a fugitive economic offender.
- ii. Existing holders of the public Indian company shall be eligible to offer shares, if-
- The public Indian company or the holder offering equity shares are not debarred from accessing the capital market by the appropriate regulator
  - None of the promoters or directors of the public Indian company is a promoter or director of any other Indian company, listed or otherwise, which is

debarred from accessing the capital market by the appropriate regulator;

- The public Indian company or the holder offering equity shares is not a wilful defaulter
- The public Indian company is not under inspection or investigation under the provisions of 2013 Act
- None of the promoters or directors of the public Indian company or the holder offering equity shares is a fugitive economic offender.

- b. Listing on international exchanges:** A public Indian company can issue equity shares or offer equity shares of existing shareholders on an International Exchange in dematerialised form and they should rank *pari passu* with equity shares listed on a recognised stock exchange in India, subject to the specified conditions. It is mandatory to obtain prior government approval, wherever applicable.

6. 'International Exchange' shall mean permitted stock exchange in permissible jurisdictions which are listed at Schedule XI annexed to these rules

7. 'Listed Indian company' means an Indian company which has any of its equity instruments or debt instruments listed on a recognised stock exchange in India and on an International Exchange and the expression "unlisted Indian company" shall be construed accordingly

8. 'Permissible jurisdiction' means such jurisdiction as notified by the Central Government under Rule 9(3)(f) of Prevention of Money-laundering (Maintenance of Records) Rules, 2005.





- c. **Obligations of companies:** The public Indian company is required to ensure compliance with the extant laws<sup>9</sup> relating to issuance of equity shares, including requirements prescribed in the scheme. Further, Indian company should ensure that the aggregate of equity shares which may be issued or offered in a permissible jurisdiction, along with equity shares already held in India by persons resident outside India, should not exceed the sectoral or statutory limit on foreign holding specified under the Schedule I to these rules.
- d. **Voting rights:** In case of public Indian companies having their equity shares listed on International Exchange, the voting rights should be exercised directly by the permissible holder or through their custodian in accordance with the voting instructions provided from such permissible holder.
- e. **Pricing:** In case of equity shares issued by a listed company or offered by the existing shareholders of equity shares listed on a recognised stock exchange in India, the same should be issued at a price, not less than the price applicable to a corresponding mode of issuance of such equity shares to domestic investors under the applicable laws.  
  
In case of initial listing of equity shares by a public unlisted Indian company on the international exchange, the price of issue or transfer of equity shares is required to be determined by a book- building process as permitted by the said international exchange and should not be less than the fair market value under applicable rules or regulations under the Foreign Exchange Management Act, 1999.



9. The Securities Contracts (Regulation) Act, 1956 (42 of 1956), the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Depositories Act, 1996 (22 of 1996), the Foreign Exchange Management Act, 1999 (42 of 1999), the Prevention of Money-laundering Act, 2002 (15 of 2003) or the Companies Act, 2013 (18 of 2013) and rules and regulations made thereunder



### III. FAQs on Direct Listing Scheme

The government has provided certain clarifications through FAQs on Direct Listing Scheme (the Scheme). Some of the key takeaways from FAQs are provided below:

**a. Objective**

The Scheme provides a framework for issuing and listing of equity shares of public Indian companies on international exchanges. Prior to this, Indian companies were not allowed to issue or list equity shares abroad.

**b. Eligible companies under the scheme**

Under the Scheme, only public Indian companies, listed or unlisted, are allowed to issue and list their shares on an international stock exchange. As of now, the framework allows unlisted public Indian companies to list their shares on an international exchange. SEBI is in the process of issuing the operational guidelines for listed public Indian companies.

**c. Private companies – scoped out**

Private companies are not eligible to issue or list their equity shares on an international stock exchange through the Direct Listing Scheme. As per the 2013 Act, private companies cannot invite subscription from the public.

**d. Permissible stock exchange and jurisdiction**

Currently, only two exchanges namely, India International Exchange and NSE International Exchange in GIFT-IFSC under the regulatory supervision of IFSCA are permitted international exchanges.

Permissible Jurisdiction	Permitted Stock Exchange
International Financial Services Centre in India (IFSC)	India International Exchange
	NSE International Exchange







### e. Prohibited companies

Public companies that fall under sectors that have been prohibited from Foreign Direct Investment (FDI), cannot issue or offer equity shares under the scheme.

### f. Sectoral caps

The equity shares listed on the international exchanges will be counted towards the foreign holding of the company. Therefore, the condition of sectoral caps applies to public Indian companies participating in the scheme.

### g. Clarification related to Indian residents and Non-Resident Indians (NRIs)

Indian residents cannot purchase or sell shares of an Indian company listed on an international exchange through the Scheme.

NRIs are permitted to buy or sell shares of an Indian company listed on international exchange under this Scheme.

### h. Investment from land bordering countries

Individuals/entities from land bordering countries can invest in shares of Indian companies listed internationally, with prior Government approval.

### i. Compliance with domestic rules

An Indian company which issues and lists its equity shares on international exchange is required to comply with the extant laws of India relating to issuance of equity shares.

### j. List on domestic exchange

It is not mandatory for an unlisted company intending to list on international exchanges to also list on domestic exchanges. However, there is no restriction on such companies to opt for listing on domestic as well as international exchanges.

(Source: MCA notification no. G.S.R. 61(E) dated 24 January 2024, Ministry of Finance notification no. S.O. 332(E) dated 24 January 2024 and FAQs on Direct Listing Scheme)







## Extension of timeline for verification of market rumours

Regulation 30 (11) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) requires prescribed listed companies, to confirm, deny or clarify market. This requirement was applicable to the top 100 listed entities<sup>10</sup> by market capitalisation from 1 February 2024 and the top 250 listed entities with effect from 1 August 2024.

SEBI, on 25 January 2024, issued a circular to

extend the timeline for compliance of verification of market rumours by listed entities. The revised timelines for compliance are as follows:

- Top 100 listed entities – from 1 June 2024 (*earlier 1 February 2024*)
- Top 250 listed entities<sup>1</sup> – from 1 December 2024 (*earlier 1 August 2024*)

Additionally, on 28 December 2023, SEBI issued a Consultation Paper to propose a revised framework related to verification of market

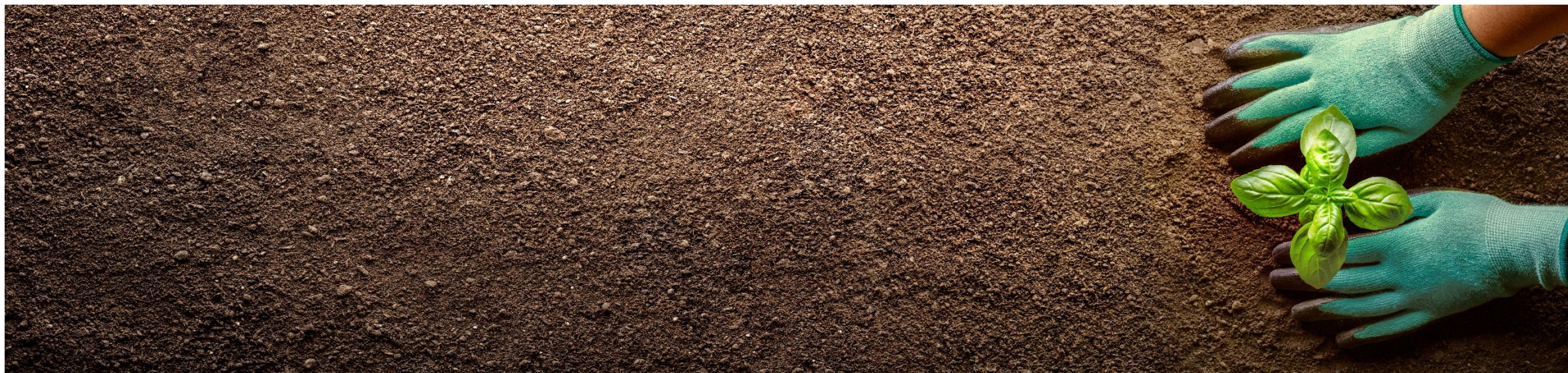
rumours regulations, proposing the following:

- Market rumour to be verified if there is a material price movement instead of material event
- To consider the unaffected price when the listed entity confirms the market rumour due to material price movement
- Mandatory and timely response from promoters/directors/Key Managerial Personnel (KMP)/senior management when

queries raised by the listed entity. This is likely to help comply with the requirements under Regulation 30(11) of LODR Regulations.

- Classification of information which was not verified by listed entities as Unpublished Price Sensitive Information (UPSI).

(SEBI circular no. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/7 dated 25 January 2024)



10. To be determined on the basis of market capitalisation, as at the end of the immediately preceding financial year.





## Consultation paper to facilitate ease of doing business and harmonise ICDR and LODR Regulations

With an aim to facilitate ease of doing business and harmonise the provisions of LODR Regulations and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), SEBI issued a consultation paper on 11 January 2024. The key proposals are as follows:

### I. LODR Regulations:

**Applicability of the regulations based on market capitalisation (Regulation 3(2)):** As per the existing regulation, the provisions that become applicable to a listed entity on the basis of market capitalisation criteria (ranking) should continue to apply even if the market capitalisation falls and remains below the applicability threshold. SEBI has proposed the following measures with respect to this:

**a. Average market capitalisation:** At present, the market capitalisation for a listed entity is calculated based on a single day's (31 March) market capitalisation. Given that the market capitalisation of a listed entity keeps fluctuating on a daily basis based on market dynamics, it is proposed that ranking should be based on an average of market capitalisation figures over a period of six months from 1 July to 31 December. Therefore, 31 December should be

considered as the cut-off date to determine the ranking of a company. In addition, a time period of three months from 31 December would be provided to a listed entity to ensure compliance with relevant provisions.

Additionally, a listed entity, to which the reporting of Business Responsibility and Sustainability Report (BRSR) (or assurance under BRSR Core) becomes applicable for the first time, should put in place systems and processes to capture the data to be reported within a period of three months from 31 December. Thereafter, a glide path of one year would be provided for BRSR reporting (or assurance under BRSR Core) in the annual report.

**b. Highest ranking across stock exchanges:**

The ranking of a listed entity can vary across different stock exchanges. With an aim to address the uncertainty around applicability of relevant provisions of market capitalisation, it has been proposed that in case a listed entity has specified securities listed on more than one recognised stock exchanges, then the highest ranking in any one of the recognised stock exchange(s) would be considered for the purpose of determining the applicability of market capitalisation based provisions.

**c. Sunset clause:** If the market capitalisation of the listed entity is below the applicability range for three consecutive years, then the listed entity need not comply with such provisions of the regulations that are not applicable to it due to its current ranking.

However, such provisions would become applicable in future if a listed entity's ranking or market capitalisation changes resulting in the entity entering into the list of top 100/250/1000/2000, as the case may be, prepared by the stock exchanges on 31 December of any subsequent calendar year.





### Limit of membership and chairmanship of committees for a director (Regulation 26(1)):

Currently, LODR Regulations restricts a director from being a member in more than 10 committees or act as chairperson of more than five committees across all listed entities. Further, for the purpose of determination of limit, chairpersonship and membership of audit committee and the stakeholders' relationship committee should be considered across all public limited companies, including unlisted public companies. However, positions in private limited companies, foreign companies, high value debt listed entities and Section 8 companies are excluded.

Through this consultation paper, SEBI has proposed the following in this regard:

- For the purpose of calculation of the limit of membership and chairmanship of committees, only equity listed entities should be considered. Therefore, the positions at unlisted public companies would be excluded.
- The stakeholders' relationship committee would be excluded from restricting committee positions for directors
- As per the existing provisions of Regulation 17A, a director can be a member of maximum seven audit

committees in listed entities. In view of the above, it has been proposed to align the maximum membership requirement with Regulation 17A.

### Filling up of vacancies of Key Managerial Personnel (KMP) Regulation 26A(1) and (2):

The existing regulation states that vacancy in the office of a KMP should be filled up at the earliest but within three months from the date of such vacancy.

However, it is observed that obtaining necessary regulatory/government/statutory approvals for such appointments could be beyond the control of the listed entity to ensure timely compliance with the provision. Therefore, SEBI has proposed that in case listed entity is required to obtain approval of regulatory, government or statutory authorities to fill up vacancy in the office of KMP, then such vacancies should be filled up within six months from the date of the vacancy.

### Timeline for prior intimation of board meetings (Regulation 29):

Regulation 29 requires a listed entity to give prior intimation to stock exchanges about its board meetings regarding certain specified proposals such as financial results, buyback of securities, fund raising, alteration of nature of securities, date

of payment of interest or redemption etc. The timeframe is two working days to a maximum of 11 working days.

The following modifications are proposed:

- Shorten the timeline for prior disclosure to stock exchanges to at least two working days in advance, excluding the date of the intimation and date of the meeting, in order to align it with the requirements for debt-securities.
- Prior intimation not required for determination of issue price for fund raising done through qualified institutions placement as per ICDR Regulations.
- Clarification that prior intimation would be required only for fund-raising proposals that involve issue of securities and for borrowings/short-term borrowings which do not involve issuance of any securities.







### Gap between meetings of the Risk Management Committee (RMC)

**(Regulation 21(3C)):** The current regulations require the RMC to meet twice a year in such a manner that not more than 180 days should elapse between any two consecutive meetings. This requirement requires listed entities to hold more than two meetings in a year in certain scenarios. Therefore, it has been proposed that the gap between two consecutive RMC meetings should not be more than 210 days.

## II. ICDR Regulations

### Compulsorily convertible securities included for computation of minimum promoters' contribution (Regulation 15):

For the purpose of determination of minimum promoters' contribution, it is proposed to include equity shares arising from conversion of fully paid-up compulsorily convertible securities that have been held for a period of at least one year prior to the filing of the Draft Red Herring Prospectus (DRHP). It is further proposed that the compulsorily convertible securities should be converted into equity shares prior to the filing of the Red Herring Prospectus (RHP).

### Non-individual shareholders permitted to contribute towards minimum promoters' contribution (Regulation 14):

Currently, for determination of minimum promoters' contribution, promoters of a company should hold at least 20 per cent of the post-offer paid-up equity share capital on a fully diluted basis. In case of any shortfall, alternative investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India (IRDAI) are permitted to contribute equity shares to meet the shortfall subject to a maximum of 10 per cent, without being identified as a promoter. SEBI has proposed that any non-individual shareholder holding five per cent or more of the post-offer equity share capital would also be permitted to contribute towards the shortfall in minimum promoters' contribution, subject to the existing maximum of 10 per cent, without being identified as a promoter.







### Events triggering re-filing of draft offer documents:

As per Schedule XVI of the ICDR Regulations, the following changes require fresh filing of a draft offer document:

- i. In case of a fresh issue, any increase or decrease in the estimated issue size by more than 20 per cent of the estimated issue size
- ii. In case of an offer for sale, any increase or decrease in either the number of shares offered for sale or the estimated issue size, by more than 50 per cent.

Through the consultation paper, SEBI has proposed to clarify that the size of the issue will be measured in INR terms. Further, it is also proposed to amend the requirement for offer for sale. As per the proposal, offer for sale size can be based on either the estimated issue size (in INR value) or the number of shares, as disclosed in the DRHP, and not on both criteria.

**Extension of the bid/offer closing date:** As per the existing regulations, issuer companies are permitted, to extend the bidding period disclosed in the offer document for a minimum period of three working days in case of any force majeure events, banking strike or similar circumstances. It is proposed to reduce the minimum period to one working day.

### Requirement of one per cent security deposit in public/right issue of equity shares:

Currently, ICDR Regulations<sup>11</sup> mandate an issuer to provide one per cent of the issue size available for subscription to the public in the manner specified by board and/or stock exchange in the form of security deposit. The security deposit is utilised towards resolving investor complaints relating to the transaction. However, the present framework such as application through Application Supported by Blocked Amount (ASBA), Unified Payments Interface (UPI) mode of payment, mandatory allotment in demat, etc. have reduced the post-issue investor complaints. Additionally, SEBI has already prescribed a mechanism to deal with complaints of delay in unblocking of application amounts under ASBA. Therefore, it has been proposed to remove the requirement of one per cent security deposit to reduce the cost on the part of issuers in the primary market.

The last date to provide comments on the above consultation paper ended on 9 February 2024.

(Source: SEBI, Reports for Public Comments, dated 11 January 2024 and Addendum to consultation paper “Interim recommendations of the expert committee for facilitating ease of doing business and harmonization of provisions of ICDR and LODR regulations” dated 2



11. Regulation 38, 80,135,197 and 259 of ICDR Regulations





## Framework for Offer For Sale (OFS) of shares through stock exchange mechanism

SEBI, through a master circular issued in October 2023, specified the comprehensive framework on Offer for Sale (OFS) of shares through the stock exchange mechanism. The same framework specifies the relevant provisions regarding offering of shares to employees by the promoters of the company. However, the existing procedure of OFS to

employees of the eligible company is happening outside the stock exchange mechanism.

Based on feedback received, in order to enhance efficiency, SEBI issued a circular dated 23 January 2024, prescribing a detailed procedure through which the promoters can offer shares to the employees through the stock

exchange mechanism. This alternative procedure will be an additional option to the already existing procedure of OFS to employees outside the exchange mechanism.

All recognised stock exchanges and clearing corporations are required to put in place the necessary systems and make amendments to

relevant rules and regulations for the implementation of the newly introduced mechanism.

(Source: SEBI circular no. SEBI/HO/MRD/MRD-PoD-3/P/CIR/2024/6 dated 23 January 2024)





## Use of technology in the internal compliance monitoring function

Recently, the Reserve Bank of India (RBI) reviewed certain entities regarding their prevailing system for internal monitoring of compliance with regulatory instructions and the use of technology to support this function. The review brought out a need to implement comprehensive, integrated, enterprise-wide and workflow-based solutions/tools to enhance the effectiveness of this function.

Basis the review, on 31 January 2024, RBI issued a circular directing the Regulated Entities (REs) to put in place a tool/solution that ensures the following:

- Effective communication and collaboration among all the stakeholders (by bringing business, compliance and Information Technology (IT) teams, Senior Management,

etc. on one platform).

- Processes for identifying, assessing, monitoring and managing compliance requirements
- Escalation of issues of non-compliance
- Recording approval of competent authority for deviations/delay in compliance submission
- Have a unified dashboard view to senior management on compliance position of the RE as a whole.

The REs are required to upgrade their existing systems or implement new systems latest by 30 June 2024.

(Source: RBI circular no RBI/2023-24/117 dated 31 January 2024)



## Guidelines on appointment/re-appointment of statutory auditors of Co-operative Banks

On 15 January 2024, RBI issued the guidelines on appointment/re-appointment of statutory auditors of State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) (the guidelines). The guidelines mandate StCBs and CCBs to seek prior approval of RBI for appointment/re-appointment or removal of statutory auditors.

Some of the key aspects of the guidelines are discussed below:

### Applicability

The guidelines would be applicable to StCBs and CCBs with effect from 1 April 2024.

### Frequency of prior approval of RBI

Prior approval of RBI would be required before appointment/re-appointment/removal of statutory auditors. Further, banks would be required to seek prior approval from RBI for re-appointment of statutory auditors on an annual basis.

### Eligibility and independence of auditors

The guidelines prescribe the following with respect to the eligibility and independence of auditors:

- The audit firm, proposed to be appointed should be duly qualified for appointment as auditor of a company in terms of Section 141<sup>12</sup> of the 2013 Act.
- Banks must assess the independence of auditors and conflict of interest, if any, should be appropriately raised to the National Bank for Agriculture and Rural Development (NABARD)
- Concurrent auditors of the bank should not be considered for appointment as the statutory auditors of the same bank. Further, the guidelines state that there needs to be a minimum gap of one year between the completion of one assignment and commencement of another assignment

12. Section 141 of the Companies Act, 2013 deals with eligibility, qualifications and disqualifications of auditors





- The time gap between any non-audit work<sup>13</sup> undertaken by the statutory auditor for the appointing bank should be at least one year (both before the appointment and after completion of tenure as the statutory auditor). However, during its tenure as the statutory auditor, an audit firm may provide such services to the appointing bank which may not normally result in conflict of interest.
- The above-mentioned restrictions would also apply to an audit firm under the same network of firms or any other audit firm having common partner(s), as defined in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014.
- Consider the CISA/ISA/DISA<sup>14</sup> qualification of the auditor and their audit experience.

### Tenure and rotation

- The guidelines specify that:
  - The statutory auditors would be appointed at a time for a period of **one year only**

and would be **reappointed annually for the succeeding two years**. During such period, premature removal of the statutory auditors require prior approval of RBI

- An auditor/audit firm would not be eligible for appointment/re-appointment in the same bank for **six years (two tenures)** immediately after the completion of a full or part tenure<sup>15</sup>.

### Maximum number of audits

- An audit firm can concurrently take up the statutory audit of a maximum of five banks<sup>19</sup> (**including not more than one StCB**) in a year.

Further, in a year, an audit firm cannot simultaneously take up the statutory audit of both StCB and CCBs operating in the same state. An audit firm can concurrently take up the statutory audit of a maximum of four commercial banks [including not more than one Public Sector Bank (PSB) or one All India Financial Institution<sup>16</sup> or RBI], eight

Urban Co-operative Banks (UCBs), eight Non-Banking Financial Companies (NBFCs), and five StCBs/CCBs in a year.

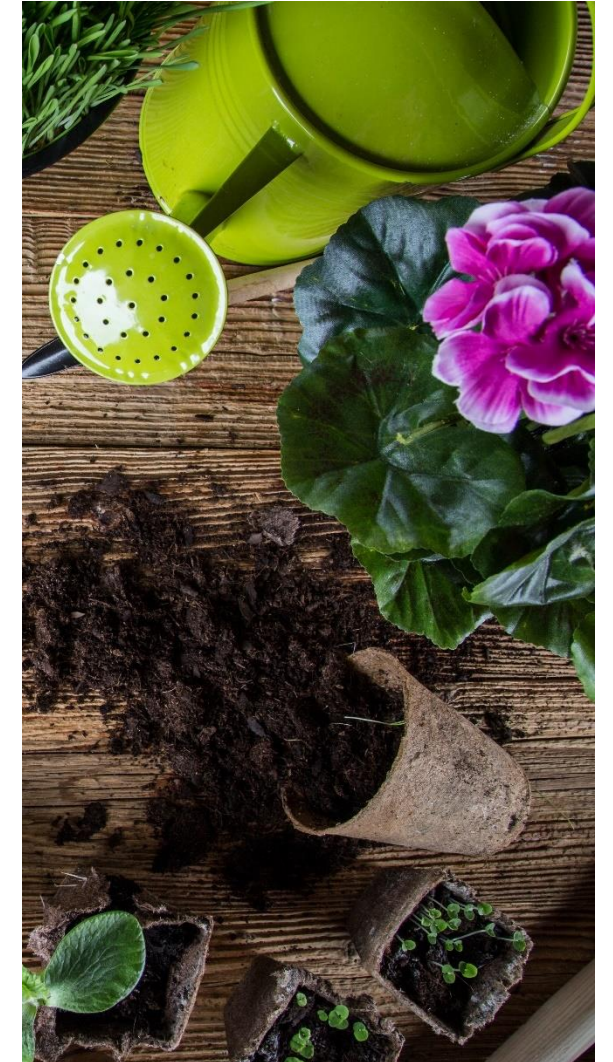
### Review of performance of auditors

- Banks are required to review the performance of statutory auditors on an **annual basis** and any serious lapse/negligence should be reported to NABARD within two months from the completion of audit.

### Other requirements

- Banks are required to:
  - Frame a Board-approved policy on appointment of statutory auditor and host the same on its website/public domain
  - Formulate the necessary procedures for selection/appointment/re-appointment/removal of auditor.

(Source: RBI circular no RBI/2023-24/113 dated 15 January 2024)



13. Services mentioned in Section 144 of the Companies Act, 2013, internal assignments, special assignments,

14. Certified Information Systems Auditor (CISA)/Information Systems Audit (ISA)/Diploma in Information Systems Audit (DISA)

15. In case an auditor/audit firm has conducted audit of the bank for part-tenure (one or two years) and then is not re-appointed for the remainder tenure, it would not be eligible for re-appointment in the same bank for six years after the completion of part-tenure. However, audit firms can continue to undertake statutory audit of other banks

16. NABARD, SIDBI, NaBFID, NHB, EXIM Bank



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